

DUN'S BUSINESS MONTH

September 1985 \$3.00

Europe's
Bull Markets:
Still Roaring



Small Business: Myth and Reality

Here Come Computer
Compact Disks

Advertising: The Creative
Wave From Britain

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The Business News of the Month

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SPECIAL REPORT

Small Business: 30 Myth and Reality

Small business' economic contribution is being overstated—job creation and new high-tech companies notwithstanding.

• Small Business in 32 Washington: Great Potential, Little Clout

ECONOMY

• Dun's Analysis: 37 U.S. Capital Gap: A Growing Eurdien

MANAGEMENT

The Joys and 40 Woes of

Managing an LBO

CEOs who have run both publicly owned and private companies talk about the differences between them.

• Morgello: 45 One-on-One

President John Castle of Donaldson, Lufkin & Jenrette says the takeover mania has gone too far.

ADVERTISING

The Creative 48 Wave From Britain

An infusion of British ad ideas, talent and practices is strongly influencing Madison Avenue.

• The Next Wave: 50 Japanese and Brazilian Ad Styles?

MONEY & MARKETS

Another Leg on 54 Europe's Bull Market

Market analysts expect European stocks, fueled by rising corporate profits and the falling dollar, to outperform U.S. equities this year and next.



A New Yardstick 57 For Bank Capital?

As banks engage in merchant banking, it is harder to measure their risks. Financial institutions and regulators are devising a new capital standard.

TECHNOLOGY

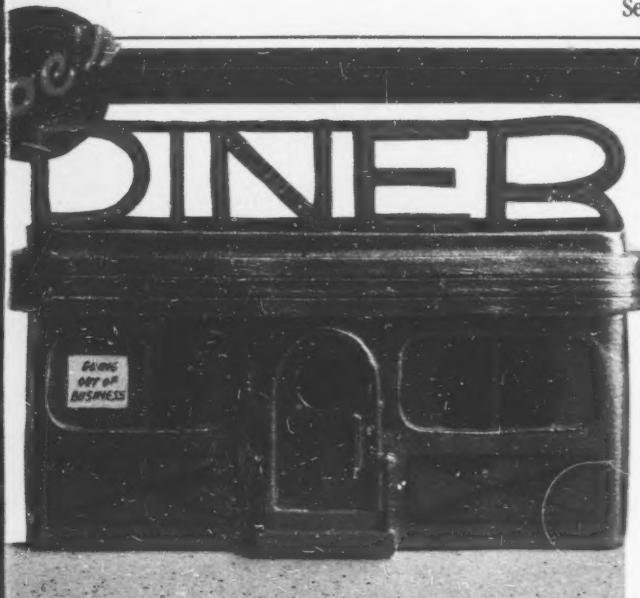
Here Comes the 63 Computer CD

Compact disks for computers are about to hit the market. Able to store 1,200 times more data than floppy disks, their potential is enormous.



DUN'S BUSINESS MONTH

September 1985, Vol. 126, No. 3



30

INDUSTRIES

Cashing In on Custom-Tailored Personal Computers

69

About 4,500 companies repackage PCs with specialized software for business and professional users—making money and boosting PC sales.

LIFE STYLE

Vanity in the Executive Suite

72

Executives are resorting to cosmetic surgery, hair transplants and etiquette lessons to improve their career chances.

COMPANIES

Network Systems' Leading Edge

80

This small company's commanding lead in the high-tech end of the LAN market should keep it ahead of even AT&T and IBM.

Letters

6

Strom Thurmond on General Foods

Managers

9

James Dutt's timely exit

Personal Finance

83

Unusual buys in European equities.

The Business Month

WASHINGTON

- Real cuts in budget deal 13
- GOP Senators split with Reagan

ECONOMY

- Will consumers quit spending? 13
- Trade deficit worsens

MANAGEMENT

- Whopping pension claim 14
- Workers want benefit basics
- Carbide's takeover defense
- Allied-Signal bonanza

INTERNATIONAL

- Investors quit South Africa 15
- Mexico okays IBM plant
- Peru's defiant debt stance
- U.S.-China nuclear pact

INDUSTRIES

- Backers abandon gasification 16
- Earnings plunge in second quarter
- Columbia Gas' cash offer
- UAL revamps fare structure

LABOR

- Unprecedented GM-UAW pact 20
- Bankruptcy's lever on labor

COMPANIES

- Torrid tussle over TWA 26
- Turner's consolation prize?
- Goldsmith wins Crown
- Merger scene
- Manville offers settlement
- BankAmerica cuts dividend



27

MONEY & MARKETS

- Fed flexes its muscle 28
- Mutual fund sales sizzle

U.S. Capital Gap: A Growing Burden

The U.S. is lending less overseas and borrowing more. The interest costs will hurt for years to come.

There has been a drumbeat of publicity in recent years about the tremendous flow of foreign capital into the United States, due to the strong dollar, high real U.S. interest rates and the positive investment climate. However, a recent study by Otmar Emminger, former president of the Bundesbank (West Germany's central bank), reveals that this is largely a myth and that net foreign purchases of U.S. equities and other direct investment actually fell between 1982 and 1984.

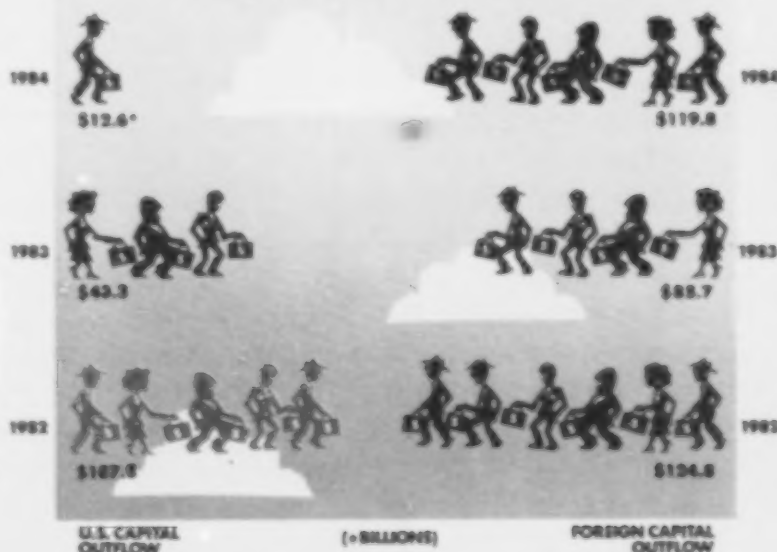
Moreover, another significant development pointed up by Emminger that has been ignored by the media, economic experts and the policymakers in Washington is the sharp drop in the flow of U.S. capital overseas (see chart). This had been a major phenomenon of the world economy in the 35 years following World War II.

Emminger points out that U.S. banks have shifted from being net lenders (\$45 billion in 1982) to net borrowers (\$20 billion in 1984). This shift is accounted for by the reluctance of U.S. banks to increase their loans to the less-developed countries, where they are already having difficulty obtaining the interest payments on previous loans. Moreover, U.S. banks have

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BIG SHIFT IN CAPITAL FLOWS

The growing gap between capital coming in to the U.S. and flowing out is largely a result of the sharp decline in U.S. investment and lending abroad.



been faced with high levels of credit demand on the domestic front, which has inhibited them from making additional overseas commitments.

While the strong dollar has been beneficial to the U.S. economy because it has kept inflation under control, on balance it has been a negative factor, in Emminger's view. Not only has it dragged down the manufacturing sector, which has acted as a depressant on the economy as a whole, but the shift by the U.S. banks to being net borrowers has made the United States

a debtor nation. This increased interest burden will weigh on the nation's balance of payments for many years to come.

However, the recent weakening of the dollar should begin to turn the situation around. Imports will stop growing, U.S. exports will become more competitive and overall economic growth will begin to pick up. That is why the economy in the second half of 1985 should show a marked improvement over the lackluster first half.

—JOSEPH W. DUNCAN

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- That many doctors don't recognize
- That may have no cure or treatment
- That is one of 5000 disorders with a total of 20 million victims

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INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	Recent Price or Yield	(7/31/85)	
		Value of \$10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	\$22.41 share	\$ 9,978	\$13,216
per cent change		-22%	+32.2%
Bonds (30-yr., 11 1/2% Treasury Bond)			
MARKET VALUE		\$ 9,760	\$11,650
ACCUMULATED INCOME	\$105.81	\$ 89	\$ 1,282
TOTAL		\$ 9,849	\$12,932
per cent change		-1.5%	+29.3%
Money Market Fund	7.02%	\$10,080	\$10,893
per cent change		+ .8%	+ 8.9%
Gold (Kruggerands)	\$327.90 oz.	\$10,370	\$9,574
per cent change		+3.7%	-4.3%
HOUSE PRICES	Recent	Month Earlier	Year Earlier
Existing House	\$94,700	\$93,000	\$82,800
per cent change		+1.8%	+12.6%
New House	\$119,000	\$102,400	\$95,300
per cent change		+21.9%	+17.4%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Dean-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.

buy. It also offers American Depository Receipts, which are units available in the U.S. and hence can be purchased in dollars rather than francs.

In Switzerland, Bratt recommends Societe Generale de Surveillance for long-term investment. Though relatively small, the company is the world's largest organization involved in trade inspection—a very specialized service that inspects and certifies goods being shipped from a seller to a buyer in another country. "If there is a shipment of grain from the Midwest to the Soviet Union," Bratt explains, "some third party has to guarantee that the grain is not rat-infested or of inferior quality."

The company is hired not only by governments but by companies. Amid the growing oil trade in many markets, Bratt observes, someone must ensure that the buyer is getting what he is paying for. Societe also values all sorts of other products, from iron ore and coal to drugs. Having pushed vigorously into

this demanding business, he says, it is now strong enough to underprice anyone who tries to compete. The company's record, Bratt says, is spotless.

Societe Generale de Surveillance went public only three years ago, and has since had a consistent growth of 15% or more a year. Bratt expects it to maintain that pace for at least five more years. He suspects that it may some day be retained by the Chinese, as they increase their trade with the outside world. Arguing that the company draws strength from its diversity, Bratt suggests that U.S. investors buy the stock and lock it away.

He also likes Walter Rentsch, a Swiss company that imports and distributes products made by Canon, the Japanese manufacturer. Thanks to the high quality of its cameras, copiers and calculators, Rentsch has been boosting earnings at 20% a year, a rate that Bratt thinks will have to slow down somewhat. He notes that the company is little-known; he has never seen the stock in any portfolio but his own.

—JOHN PERHAM